An upcoming Competition Commission order will reshape the PPI landscape so lenders and distributors had better be prepared, says Drazen Jaksic, managing director UK & Ireland of Assurant Solutions

Get ready to face PPI changes

The Competition Commission will shortly publish an order to give effect to the remedies set out in its report on the payment protection insurance market. While a legal challenge by two big lenders is still being argued in the courts it is likely that the CC will progress the order.

So PPI firms and distributors must be ready to operate in a new world, but what will this look like and how can they best work within its boundaries?

There are three main components to the order – information requirements, prohibition and compliance.

On the surface this might seem like just a lot of administration but in truth it means that PPI firms face significant changes not only in the sales process but also in managing the life of policies.

And managing change is challenging. There are three key objectives to work towards if the industry is to operate successfully in the new world order.

First, we must rebuild customer confidence in PPI by delivering products that do what they say backed up with good customer service.

We must also rebuild confidence among distributors. They need to establish their own objectives for providing PPI but they must also must feel confident that they are selling a product their customers trust.

Third, as the foundation of rebuilt confidence, insurers need to manage their risk portfolios appropriately.

PPI has been an income generator for many distributors but today's marketplace is vastly different from that of 2005 when PPI hit peak penetration levels. It has since contracted by almost 50% due to a combination of bad press, the recent decline in lending and the ban on selling single premium policies.

So it would be prudent for distributors to first address whether PPI should remain an income generator for their business. If so, they should set a realistic target given the impact of the prohibition on selling PPI at point-of-sale.

If PPI is to play a different role distributors need to consider what this should be.

Should it be a marketing tool? For example, could a distributor provide PPI free to consumers alongside credit products, thus gaining a competitive edge?

Or should distributors see PPI more as a risk mitigator? Would making PPI more available at lower cost allow them to drive greater stability through their portfolios, relying on the insurance to cover bad debt rather than having to make their own provisions?

The amount and quality of information that distributors will have to provide will increase in the new world. The CC order takes a prescriptive approach and there is no choice when it comes to using the templates created for marketing materials, personal quotes and annual statements.

The latter presents another question – issuing an annual statement gives consumers an opportunity to cancel a policy and look elsewhere. Distributors will need to work with their insurance partners to develop robust customer retention strategies.

We have found that we can positively affect the level of cancellations for our partners in several ways. These include good customer service skills delivered by individuals who can uncover the reasons for cancellations, negotiate, problem-solve and communicate so customers decide to stay.

And, of course, distributors will no longer be able to sell PPI at the same time as selling a mortgage, loan or other credit product. They will have to wait seven days unless consumers initiate transactions after 24 hours and confirm they have seen a personal PPI quote.

This does not have to be a big problem in terms of restructuring the sales process if you harness the appropriate technology to manage the process for you.

The question is how a firm chooses to balance its response to the order with other IT priorities. PPI is a secondary product and the investment required could be pushed down the list so distributors should consider involving their insurance partners.

The CC order includes extensive compliance reporting to ensure the new regime is enforced to the letter. Providers that achieved a total annual gross written premium of £60m in the preceeding year will have to commission an independent research agency to undertake a mystery shopping exercise. One failure could damn a business as being non-compliant so getting systems and controls in place from the outset will be essential.

Drazen Jaksic

Personal lines insurance providers such as Marks & Spencer have had great success in developing panel propositions. Using a panel could allow a distributor to provide a higher proportion of competitive quotes.

But since this option would be subject to the point-of-sale prohibition amendments to the sales process would still be required. While this seems like extra work it provides distributors with the opportunity to show transparency and gives customers more choice. This will go a long way towards rebuilding consumer confidence.

A key criticism of the CC order is that it will stifle product innovation. The commission has made it clear that products brought to market that look, feel or smell like PPI will be considered to be PPI and subject to the provisions of the order. For example, a policy unrelated to a credit product but linked to income will be considered to be PPI.

But this doesn't mean that a one-size-fits-all approach is the best way forward. The viability of the traditional product is in question as economic turmoil highlights a fundamental flaw.

As the product is underwritten at the point of claim it is impossible for an insurer to gain a true picture of an individual policyholder's risk exposure. This is a significant hurdle to insurers managing risk.

I believe we should introduce a product that quotes an annual premium for an individual based on their risk profile at point-of-sale – no different to the way home or travel cover is sold. Such a product would not only better position insurers to manage their risk but also help restore confidence.

With some articles due to come into effect six months after the date of the order and the remainder 12 months later, insurers and distributors have a lot of work to do. Whether the outcomes will achieve all of the CC's aims remains to be seen but the alternative of leaving consumers without protection is unconscionable.